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ABSTRACT

The three largest cities in Japan--Tokyo, Osaka and Nagoya--are used to examine the financial situation of Japanese urban areas. The 1949 Shoup Mission findings and recommendations are reviewed. Demographic data and information on the administrative and the fiscal organization of Japanese cities during the past three decades are presented. Details of local public expenditures in the 1970's are offered and contrasted with figures for the nation as a whole. Major spending in the areas of education, public works, and social welfare is discussed. Resources available to local level governments for meeting these expenditures are examined. Differences between prefectures (such as Tokyo) and municipalities are pointed out in this context. Taxation and fiscal policy, such as revenue sharing and special grants to municipalities from national and prefectural sources, are described and some prospects for future fiscal reform are outlined. Discussion throughout this work is supported by extensive statistical data. (GC)

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URBAN AFFAIRS PAPER NO. 3

LOCAL PUBLIC FINANCE IN JAPAN

by

Ursula (Lady) Hicks

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THE AUTHOR . . . . .

Ursula (Lady) Hicks is Professor Emeritus of Linacre College, Oxford University. She is a scholar of international reputation in the field of public finance and is author of the multi-editioned landmark text Public Finance (first published in 1947), Development Finance: Planning and Control (1961), and The Large City: A World Problem (1974), as well as numerous articles in her field. Lady Hicks is currently completing a comparative historical study Federalism: Failure and Success. Alone and in collaboration with her husband, J.R. Hicks, she has served in an advisory capacity to the governments of Great Britain, India, Nigeria and Uganda.

* * * * * * * * *

In preparing this article I have been very greatly assisted by my former student Professor Tetsuya Nosse,(D.Phil. Oxon.) of Kobe Commercial University. Professor Nosse has himself been adviser to the Osaka Committee on Urban Reform, and is now a member of the Kobe Committee. He has tried hard to improve my understanding of the real workings of Japanese institutions and I hope that he has to some extent succeeded. Any remaining misunderstandings are solely of my own responsibility.

U.H.

Introduction

All over the world the cities of large metropolitan areas are in financial trouble. Urban fiscal resources tend to be limited and inelastic, while the scope of public services and the new responsibilities placed on the cities have steadily expanded. Inflation has added to the difficulties of the cities since it brings with it an inevitable rise in price of goods and services and more particularly in labor costs.

For a number of reasons the financial situation of the Japanese cities is particularly difficult. Before the recent explosion of city populations the basic amenities of town life: tolerable housing, modern streets, water supply and waste disposal services, were poorly developed. They had been very badly damaged by wartime bombing. The process of urban immigration was and is continuing at a rapid pace; the transition from a predominantly rural to a predominantly industrial economy by no means yet completed.

On top of this came the oil crisis. This hit Japan with particular severity because her alternative sources of energy are few. What the effect of this blow will be on urban renewal and development cannot yet be estimated; but unfortunately there is a fairly high risk in Japan (as in several other countries) that hard-pressed national governments will curtail the assistance

which they have been giving to local authorities (and which has become so necessary to localities). It is with this background in mind that we start to investigate the financial status of Japanese cities.

The Japanese urban population is now three times as large as the rural population. Of all the cities, Tokyo, always large, had by 1970 become by far the largest with 8.7 million persons in the traditional city area, and another 2.8 million people under the same jurisdiction--the Metropolitan Government (T.M.G.) established in 1947. In addition, built-up areas sprawl over the countryside in other prefectures. With Tokyo, there are now nine cities "designated" as major, each with more than one million inhabitants. (See Table I(B)). Osaka with almost 3 million in the city and another 4.7 million around it (but under different jurisdictions) is easily second largest. But Nagoya with a night population of 2 million people and many daily commuters, is not far behind. Forty-five percent of the Japanese population lives in these three areas. It is not surprising that there are some heavily crowded districts. Thus, the old city of Tokyo with an area of 225 square miles has a density of 39,427 per square mile. Osaka city with an area of 78.4 square miles has a density of 38,008 per square mile. The remaining designated cities range in density from 16,386 per square mile in Nagoya to 5,777 per square mile in Kita Kyushu.

Due partly to their size and partly to their fiscal organization the three giant cities of Tokyo, Osaka and Nagoya are the

most interesting to investigate. Tokyo Metropolitan Government (T.M.G.) has a unique status being itself a prefecture. It thus has many more responsibilities, all of which entail large fiscal commitments, than the other two cities. Osaka, like all other cities, is subject to the power of the prefectural system. Indeed in this respect Osaka is particularly unlucky, since in addition to Osaka Prefecture four other prefectures abut its boundaries. There is no reason to suppose that their policies will be similar, apart perhaps from a general distrust of Osaka. Nagoya is in a more fortunate position since it lies wholly within Aichi Prefecture, with which it has maintained close and, on the whole, friendly contacts. Osaka and Nagoya are now losing population in the inner city, mainly because factories are moving out. Growth is taking place on the fringes. This is much less true of Tokyo since it is recognized and planned not only as the capital of Japan but also as a center for South East Asia. There is consequently little movement out of the crowded central areas of Tokyo.

The central administration in Japan has always been very strong. It works closely with and through the prefectures which were set up at the time of the Meiji Revolution in the 1870's.* At the end of the last war the occupying administration headed by the Supreme Commander for the Allied Powers was anxious to promote democratic institutions and to reduce drastically the power of the

*Ed. Note: With the reversion of the Ryukyu Islands from the United States to Japan in 1972, Okinawa was designated Japan's 47th prefecture. See Table I(A).

prefectural governors. A Mission under Professor Carl Shoup of Columbia University was brought in in 1949 on constitutional change and fiscal reform. Some Japanese constitutional change had already occurred in November 1946. The Shoup Mission sent its report to the General Headquarters in 1949. The report recommended a considerable degree of decentralization, both administrative and fiscal. The prefectures remained as they had been, except for Tokyo, where the metropolitan area had recently been taken out of the traditional system and constituted a prefecture on its own, with the mayor doubling in the role of prefect.

The Mission recommended that there should be established a local finance commission to be made up of five commissioners with one member each to be appointed by the president of the Association of the Prefectural Governors, the president of the Association of Mayors of Cities, the president of the Association of Mayors of Towns and Villages, and two members appointed by the Prime Minister.

This reform was broadly accepted. The chief executive (mayor in the American meaning of the word) in cities and the prefectural governor are elected by the citizens and hold office for four years. The other leading administrators (including the chief accountant) are appointed by the mayor (or governor) on the recommendation of the local assembly. The Shoup Mission also recommended an amalgamation of some small local government areas which would not be able to sustain the new duties which were to be devolved upon them. At the other end of the scale the Mission also recommended a wide extension of metropolitan areas

TABLE I(A)

POPULATION TOTALS BY SEX AND DENSITY ('000's of persons)[1]

Year[2]	Male	Female	Total	Area Sq. Miles	Population Density (Total ÷ Area)
1974	54,010	56,039	110,049	147,218.7	747.5
1973	53,331	55,379	108,710	147,218.7	738.4
1972[3]	52,639	54,693	107,332	147,218.7	729.0
1971	51,529	53,485	105,014	146,362.2	717.4
1970[4]	50,918	52,802	103,720	146,362.2	708.6

1. Excludes foreign military and civilian personnel and dependents
2. Totals as of October 1st of indicated year
3. On May 15, 1972, the formally U.S.-occupied Ryukyu Islands (Area: 855.5 square miles) reverted to Japan and was designated Okinawa Prefecture
4. Census year

TABLE I(B)

JAPANESE CITIES, POPULATION GREATER THAN 1,000,000 ON OCTOBER 1, 1974[1]

City	Population	City	Population
Tokyo	8,678,642[2]	Kyoto	1,438,714
Osaka	2,802,065	Kobe	1,351,651
Yokohama	2,562,291	Sapporo	1,178,224
Nagoya	2,082,235	Kita Kyushu	1,058,133
		Kawasaki	1,004,455

1. Estimated
2. Total refers to 23 wards of old city; population for area of Tokyo Metropolitan Government (T.M.G.) at 11,518,595 persons.

Source: Table I(A,B,C): The Europa Yearbook, 1976: A World Survey, London: Europa Publications, 1976.

TABLE I(C)

EXCHANGE RATES, U.S. DOLLARS AND JAPANESE YEN FOR SELECTED PERIODS

Period	Exchange Value	
	One U.S. Dollar	1,000 Japanese Yen
December 1975	Yen 304.8	$3.28
1974	Yen 291.5	3.43
1973	Yen 272.2	3.67
1972	N/A	N/A
1971	Yen 350.7	2.85
April 1949 to April 1971	Yen 360.0	2.77

Source: Table I(A,B,C): The Europa Yearbook, 1976: A World Survey, London: Europa Publications, 1976.

in addition to the T.M.G. This policy would have broken through prefectural boundaries in some cases. This latter plan was not carried out. All the other prefectural boundaries have remained intact. Notwithstanding the amalgamation of some small jurisdictions, the number of local entities in Japan remains very large (3,344 in all) in both rural and urban areas. As discussed below, Tokyo is divided into wards in the inner districts, with a large number of "cities" in the outer areas. Although none of these are administratively very important, the continuing difficulties of fragmentation show up, particularly in the matter of planning fringe development. Three separate authorities have

had a hand in the birth of Tokyo's new town, Tama. It is not surprising that progress is slow. In fact, planning itself tends to be fragmented.

On the fiscal side the Shoup Mission was anxious on the one hand to increase the resources available to local units, and on the other to arrange for some interlocal redistribution in favor of poor areas. The Mission insisted that the municipalities should have a right to tax property. For the prefectures the enterprise tax (which had been in force since before the War) was to be transformed into an *ad valorem* tax. The value added tax left its mark in the law files of Japan but was never enforced. The cities were to be endowed with an enterprise tax and an equalizing grant was to be introduced in place of the previous system of shared revenues. But in 1954 changes were made which largely restored the enterprise tax to the prefectures. The loss of this tax was a severe blow to city finances outside Tokyo (which as a prefecture retained it), since it was proving to be the most elastic source of autonomous revenue. In 1966 it brought in 33 million yen, in 1972 40 million yen. In 1972 Tokyo was deriving over 35 percent of its local tax revenue from this source, mainly from corporations. The proposed equalization grant became the local allocation tax (L.A T.), a type of shared revenue consisting of 32 percent of the national personal income tax, corporation tax and liquor taxes. This we examine below. So far as the receiving entities are concerned, L.A.T. is a type of block grant, with no strings attached. Over 90 percent of local

authorities receive an allocation. The objective of redistribution is maintained in that the cities are discriminated against in favor of country areas. Indeed it seems to be the opinion of the national authorities that unit costs decline with the population to be served. Thus no account is taken of the additional services necessary in the cities, but not needed in country areas.

Expenditures

Before we examine in detail the financial resources on which Japanese cities can draw it will be useful to glance briefly at the distribution and magnitude of the cities' main commitments. Local authorities derive 70 percent of their financial provision from higher level governments, leaving 30 percent to be raised from local sources. The outlays are virtually the opposite. Of the combined public expenditure 30 percent is on national account, 70 percent on prefectural and local account. As in other countries this situation is largely due to the post-war expansion of social services. The imperfect correspondence of benefit and tax regions, tradition, and a relatively more elastic revenue source explain in part the fact that the main fiscal responsibility for the expansion has fallen not on the local authorities but on the prefecture. Although local revenues exceeded prefectural revenues in the immediate post-war period, since 1964 they have been considerably smaller.

The breakdown of local expenditure over the country as a whole is shown in Table II.

TABLE II(A)

OUTLAY OF ANNUAL LOCAL EXPENDITURE FOR ALL PURPOSES,
FY 1966-1967 to FY 1974-1975 (BILLIONS OF YEN)

Item	1966-1967	1967-1968	1968-1969	1969-1970	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975
Education	1,298.0	1,472.0	1,680.6	1,986.7	2,440.3	2,931.4	3,454.4	4,306.5	6,050.1
Public Works	1,066.3	1,223.1	1,564.6	1,972.0	2,474.4	3,054.1	3,690.6	4,386.5	5,326.9
Economic	736.9	854.7	990.0	1,201.4	1,421.1	1,736.2	2,053.2	2,170.1	2,681.0
Social Welfare	640.8	752.7	881.0	1,039.2	1,309.8	1,584.2	2,066.7	2,943.5	3,983.6
Administration	570.3	626.2	726.0	852.9	1,005.7	1,177.1	1,407.6	1,743.4	2,289.5
Health	320.9	363.1	377.7	453.9	575.9	716.2	905.6	1,142.5	1,568.5
Debt Service	183.5	225.3	300.7	316.6	371.7	436.7	572.5	656.5	841.5
Other	209.5	208.4	209.0	211.2	216.0	273.6	467.7	124.9	149.5
Totals	5,026.2	5,725.5	6,729.6	8,033.9	9,814.9	11,909.5	14,618.3	17,473.9	22,887.9

TABLE II(B)

PERCENTAGE OF ANNUAL LOCAL EXPENDITURE
BY FUNCTION FOR ALL PURPOSES

Item	1966-1967	1967-1968	1968-1969	1969-1970	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975
Education	25.8	25.7	25.0	24.7	24.9	24.6	23.6	24.6	26.4
Public Works	21.2	21.4	23.2	24.5	25.2	25.6	25.2	25.1	23.3
Economic	14.7	14.9	14.7	15.0	14.5	14.6	14.0	12.4	11.7
Social Welfare	12.7	13.1	13.1	12.9	13.3	13.3	14.1	16.8	17.4
Administration	11.3	10.9	10.8	10.6	10.2	9.9	9.6	10.0	10.0
Health	6.4	6.3	5.6	5.6	5.9	6.0	6.2	6.5	6.9
Debt Service	3.7	3.9	4.5	3.9	3.8	3.7	3.9	3.8	3.7
Other	4.2	3.6	3.1	2.6	2.2	2.3	3.2	0.7	0.6
Totals	100.0	99.8	100.0	99.8	100.0	100.0	99.8	99.9	100.0

Note: Errors due to rounding

Source, Table II(A,B,C): White Paper on Local Finance, Ministry for Local Government, Tokyo, published annually.

TABLE II(C)

PERCENTAGE INCREASE IN ANNUAL LOCAL EXPENDITURE FOR ALL PURPOSES

Item	1966-1967	1967-1968	1968-1969	1969-1970	1970-1971	1971-1972	1972-1973	1973-1974	1974-1975
Education	100.0	113.4	129.4	153.0	188.0	225.8	266.1	331.7	466.1
Public Works	100.0	114.7	146.7	184.9	232.0	286.4	346.1	411.3	499.5
Economic	100.0	115.9	134.3	163.0	192.8	235.6	278.6	294.4	363.8
Social Welfare	100.0	117.4	137.4	162.1	204.4	247.2	322.5	459.3	621.6
Administration	100.0	109.8	127.3	149.5	176.3	206.4	246.8	305.6	401.4
Health	100.0	113.1	117.7	141.4	179.4	223.1	282.2	356.0	488.7
Debt Service	100.0	122.7	163.8	172.5	202.5	237.9	311.9	357.7	458.5
Other	100.0	99.4	99.7	100.8	103.1	130.5	223.2	59.6	71.3
Totals	100.0	113.9	133.8	159.8	195.2	236.9	290.8	347.6	455.3

(Formula: (year - 1966-1967 item total) 100 computed from data in Table II(A))

Code: Public Works includes some hospitals
Economic includes industrial relations, agriculture, fisheries, forestry, commerce and manufacturing
Social Welfare includes security, pensions, police, fire
Administration includes the expenses of the Assembly
Health includes sanitation

Source, Table II(A,B,C): White Paper on Local Finance, Ministry for Local Government, Tokyo, Published Annually

These figures showed sizeable increases spread fairly evenly over all services, but with a slightly smaller rise in education than in the rest. (The school population was declining due to the fall in the birth rate.)

The distribution of outlay in the large cities diverged slightly from that over the country as a whole, as is apparent from Table III. Unfortunately vagueness of classification and statistical gaps cloud the picture to some extent. The special position of T.M.G. relative to Osaka and Nagoya appears in its prefectural responsibilities for education and security (police). In Osaka and Nagoya the assistance of higher level governments especially with respect to education is apparent. This leaves public works (housing, roads and sewerage) by far the largest category of current outlay. (Water is classed as a public enterprise, as discussed below.) The relatively small outlay on education in these two cities reflects the extent to which the service is financed by higher level governments.

We must now examine these headings in more detail.

Japan has a long and proud tradition of public education, having achieved a universal system in 1872, (only two years later than England). In 1966 education accounted for 26 percent of total local outlay; by 1971 this had dropped to 24 percent; and by 1975 it was again more than 26 percent; but only a minor part of the cost (27-30 percent) actually fell on local autonomous taxes. The relative importance of different items in the cost of education for prefectures and municipalities is shown in

TABLE III

PUBLIC OUTLAY FOR LOCAL SERVICES
FOR SELECTED LARGE CITIES
(Totals in Millions of Yen)

	Tokyo			Osaka			Nagoya		
	Sept. 1972		1974	May 1971		1974	Dec. 1971		1974
Item	Total	Percent Increase	Total	Total	Percent Increase	Total	Total	Percent Increase	Total
Education	169.2	(87.2)	316.8	39.0	(95.1)	76.1	19.6	(107.6)	40.7
Public Works	37.2	(472.5)	213.0	75.4	(74.9)	131.9	50.8	(31.5)	66.8
Economic	63.8	(27.9)	81.6	N/A	-	9.8	5.4	(142.5)	13.1
Social Welfare	178.4	(157.8)	460.0	52.8	(83.3)	96.8	19.5	(121.5)	43.2
Health	98.3	(14.5)	112.6	35.1	(10.2)	38.7	9.9	(123.2)	22.1
Debt Service	N/A	-	223.9	N/A	-	30.1	N/A	-	N/A
Other	3.3	(8724.2)	291.2	N/A	-	62.3	16.9	(121.3)	37.4
Totals	550.2	-	1849.0	202.3	-	445.7	122.1	-	223.3

Notes: See Notes in Table II for description of items
1974 totals are settled accounts

Source: See Table II for earlier totals; 1974 totals: Daitoshi Hikaku Tokei Nenpyo. (Annual Comparative Statistics of Large Cities), 1974 Edition, May 1976, pp. 249-252.

Table IV(A,B,C). Primary and lower secondary schools are managed by the municipalities, but the salaries of teachers are paid for by the prefectures, (with a 50 percent grant from the national government). Upper secondary and special schools are a prefectural responsibility.

There has been little change in the percentage distribution of Tables IV(A), IV(B), and IV(C). However, the absolute totals indicated drastic increases for all levels of education and education administration (Table IV(A)), as well as for salaries, which are the major prefectural outlay, and for the burdens borne by municipalities, buildings and materials (Table IV(B)). The source of these increases is found in inflation, most especially that associated with the oil crisis of 1973-74. The central government was obliged to cover these increased costs by augmenting its grants, while prefectures and municipalities had to devote greater shares of their general revenues and, in a special burden on municipalities, debt capacity to the support of education. These developments are indicated in Table II(C) and underlined by Table IV(D), derived from Table II.

The Japanese school population has been declining since 1958, but the change hardly affects costs for the large cities. Relative to smaller areas cities need better buildings, and additional services such as school meals and transportation. Some of the schools are still housed in obsolete and by no means sound-proof wooden buildings. It is estimated that 45 percent of the schools are short of space. The situation is especially bad

TABLE IV

(A): RELATIVE LOCAL OUTLAYS ON EDUCATION (BILLIONS OF YEN)

	Prefectures				Municipalities				Net Total			
	1971		1974		1971		1974		1971		1974	
	Total	%	Total	%	Total	%	Total	%	Total	%	Total	%
Division												
Primary	676.2	36.3	1431.6	37.0	450.4	41.3	873.8	39.1	1122.3	38.3	2297.1	38.0
Lower Secondary	391.6	21.0	808.2	20.9	234.0	21.5	451.6	20.2	623.8	21.3	1255.9	20.8
Upper Secondary	472.5	25.4	974.4	25.2	40.0	3.7	81.2	3.6	511.6	17.5	1054.8	17.4
University	27.3	1.5	45.8	1.2	11.2	1.0	19.9	0.9	38.4	1.3	65.5	1.1
Special	47.5	2.5	126.8	3.2	38.7	3.5	115.6	5.2	85.9	3.0	240.3	4.0
Administration	247.9	13.4	483.5	12.5	315.0	28.9	690.6	31.0	549.4	18.7	1136.5	18.7
Total	1862.9	100.0	3870.3	100.0	1089.4	100.0	2232.7	100.0	2931.4	100.0	6050.1	100.0

Note: Errors due to rounding

(B): EDUCATIONAL COSTS OF PREFECTURES AND MUNICIPALITIES (BILLIONS OF YEN)

Items												
Salaries	1560.3	83.8	3231.0	83.5	266.0	24.4	594.0	26.6	1826.4	62.3	3824.0	63.2
Materials	71.2	3.8	122.0	3.2	193.9	17.8	328.0	14.7	265.1	9.0	450.0	7.4
Buildings	174.4	9.4	479.0	12.4	571.9	52.5	1283.0	57.4	741.3	25.3	1718.0	28.4
Others	57.0	3.0	38.0	0.9	57.8	5.3	28.0	1.3	98.6	3.4	57.0	1.0
Total	1862.9	100.0	3870.0	100.0	1089.4	100.0	2233.0	100.0	2931.4	100.0	6049.0	100.0

Note:Errors due to rounding

(C): SOURCES OF EDUCATIONAL FINANCE (BILLIONS OF YEN)

Items												
General Revenues	1183.6	63.5	2462.0	63.6	684.1	62.8	1361.0	61.0	1881.1	64.2	3848.0	63.6
Central Gov't Grants	568.0	30.5	1178.0	30.4	91.5	8.4	240.0	10.8	659.5	22.5	1418.0	23.4
Local Gov't. Grants	-	-	-	-	13.5	1.2	39.0	1.7	-	-	-	-
Local Debt	41.2	2.2	97.0	2.5	232.2	21.3	428.0	19.2	254.7	8.7	494.0	8.2
Others	70.1	3.8	133.0	3.5	68.1	6.3	164.0	7.3	136.1	4.6	289.0	4.8
Total	1862.9	100.0	3870.0	100.0	1089.4	100.0	2233.0	100.0	2831.4	100.0	6049.0	100.0

Note: Errors due to rounding

Source: Table IV(A,B,C,D) 1971 Totals: White Paper of Local Finance, Ministry of Local Autonomy, 1973 Edition, pp. 248, 288; 1974 Totals: White Paper on Local Finance, Ministry of Local Autonomy, 1976 Edition, p. 314.

TABLE IV
(D): PERCENTAGE INCREASE OF LOCAL EXPENDITURES FOR ALL PURPOSES, FY 1973-1974 to FY 1974-1975 (Billions of Yen)

Item	FY 1973-1974	Percentage Increase	FY 1974-1975
Education	4,306.5	40.4	6,050.1
Public Works	4,386.5	21.4	5,326.9
Economic	2,170.1	23.5	2,681.0
Social Welfare	2,943.5	35.3	3,983.6
Administration	1,743.5	31.3	2,289.5
Health	1,142.5	37.2	1,568.5
Debt Service	656.5	28.1	841.5
Other	124.9	19.7	149.5
Total	17,473.9	30.9	22,887.9

Note: Errors due to rounding

Source: Table I/(A,B,C,D) 1971 Totals: White Paper on Local Finance, Ministry of Local Autonomy, 1973 Edition, pp. 248,288; 1974 Totals: White Paper on Local Finance, Ministry of Local Autonomy, 1976 Edition, p. 314.

in Tokyo because there has been so little emigration from the crowded areas. Nevertheless it is noteworthy that public education is one of the few items of city expenditure not subject to general complaint by the citizens. On the other hand there has been a substantial increase in privately-owned schools and colleges since the war. This may reflect the difficulties of the state schools, in all cities, but especially in Tokyo. The "difficulties" mentioned include not only the ill-equipped school buildings, but the growing number of applicants wanting to enter the better and more prestigious schools. Of these schools, the University of Tokyo is the first. These universities have severe entrance examinations and are further constrained by space limitations. Some of the private schools operate preparatory schools for the national universities.

The next largest item in local expenditure seen in Table III is public works. The average budgets for these services break down into three major categories: roads and streets, including parks, (37 percent), planning (23 percent) and housing (16 percent). The public utilities (or enterprises), although governments, are outside the budget since they keep commercial-type rather than public sector-type accounts. Examples are agencies engaged in water supply, gas, electricity and transport. We shall examine these briefly later. The road and open space facilities of Japanese towns are very inadequate. The ratio of street and open space to built up area in Tokyo is no more than 12:1. In Osaka it is 11:1. This is in strong contrast to the

norm in advanced countries where it is on average 25-30:1. Because national grants are available to out of town roads but not for city streets, local improvements proceed slowly. It is made all the more difficult because of overcrowding and the very recent advent of mass motoring: the number of vehicles on city streets increased twentyfold between 1950 and 1965.

Housing is a major industry in Japan. The greatest portion of these is erected by private enterprise. Nevertheless public outlay on housing and construction is by no means negligible. In billion of yen annually expended, Tokyo totals 19.9, Osaka 34.7 and Nagoya 22.8. Most of the new houses are designed for low income families. Osaka in particular has been following a very active rehousing policy which has caused some financial difficulties. High rise apartments are increasingly replacing the single family houses which Japanese families prefer, since apartments economize on space, which is scarce, and on land costs, which are astronomical. New houses are normally supplied with adequate sanitation facilities, but this is by no means the universal case with the older houses. Only 21 percent of Japanese housing is serviced by waterborne sewerage facilities. Inner Tokyo is up to 34 percent, but over the whole T.M.G. sanitation in housing is little better than the national average. On the average over the country some 50 percent of human waste receives no treatment of any sort and is hence a potent source of pollution.

Economic services represent a varied collection, differing

significantly in importance from one city to another. They include services on behalf of labor and business in industry and commerce, agriculture, forestry and fisheries. Osaka is developing its port in conjunction with Kobe, which has excellent deep water facilities. However, neither Osaka nor Nagoya approach the sale of Tokyo's outlay noted in Table III. No doubt Tokyo's prefectural responsibilities are an important element in this difference.

The social welfare heading of Table III comprises distinctive sets of services. On the one hand are protective services such as fire prevention (a serious hazard in a country where there are still a large number of wooden houses), and Tokyo police services (in the other towns this is a prefectural responsibility). Also included are social welfare services. These are divided into several categories: health and unemployment insurance and welfare pensions, most of the municipal hospitals, child and geriatric care, public assistance and people's pensions.

The municipalities have been running into an awkward problem pertaining to the People's Health Insurance. This program, instituted in 1951, covers self-employed persons and their families. The plan is financed by the national government (40 percent), the People's (national) Health Insurance tax (25 percent), the patients (30 percent), and the adjustment grant by the national government (5 percent). But the continuing increases of medical costs are draining the fund and the contributors are mostly poor. A proposed raising of the People's Health Insurance

tax encounters the complaints of the self-employed.

The People's Pension Plan was instituted in 1959. It aims at the across-the-board involvement in the social insurance system, and it covers the old-age retirement pension, invalids, and survivors, on a voluntary and a compulsory contribution basis. The voluntary contribution system, as a part of the People's Pension Plan, supplements the benefits of the other social insurance systems, such as the Welfare Annuity Plan, the Government Employee Cooperative Annuity Plan, and the Seaman Insurance System.

In spite of the comprehensive list of programs there is a good deal of discontent concerning their adequacy. Complaints are especially common with regard to pensions. Of course, the opposite side of this model is the fact of a very high rate of personal savings in Japan. In the large cities most of these services are within the jurisdiction of the municipalities (except for national pensions). Osaka has been following a very active policy with respect to health and hospitals, as well as for housing. Osaka's net expenditure under the social welfare heading compares very favorably with Tokyo's total outlay, especially since Tokyo's figure (as we have seen) includes police.

Most of the remaining local government expenditures are classed as "public enterprises." As we have seen, the governments keep commercial-type accounts, so public enterprises are not reckoned as part of the budget. Further, they have better access to loan funds than do budgetary public works. Most of the

enterprises went into deficit in the early 1960's. In 1966 a public enterprise law was passed providing for national government financial assistance where it was plainly out of the question that an undertaking would break even. Apart from particular local causes this fiscal crisis was generally due to diseconomies of scale, which made it impossible to raise charges sufficiently to cover costs.

Sixteen of the prefectures now operate water supply enterprises; the rest belong to municipalities. They are in deficit partly because of the rise in construction costs, partly because rising incomes bring with them an increased demand for water for domestic purposes. The increased demand makes it necessary to look further afield for sources, and charges cannot be raised quickly to cover the additional cost. There has been an expansion in recent years of utilities supplying water for industry. In 1969 there were 73 such enterprises (of which 34 were operated by prefectures). The total had risen to 77 two years later.

In 1969 there were 43 public electricity supply utilities, of which 31 were prefectural. Two years later, by amalgamations, these had been reduced to 37. There are 72 public gas enterprises of which more than 20 percent are in deficit. But it is in mass transport that the heaviest losses are sustained. On the average over the country only 25 percent of passengers now use public transport. In Tokyo the percentage drops to 20 percent; Osaka, with 27 percent, does a little better. Nagoya with wide streets and modern buses actually captures 52 percent of its commuting

public. The somewhat smaller volume of commuters may also help the two latter cities. Every city that operates a subway experiences heavy losses, resulting in demands for a national government subsidy.

Revenues

We are now in a position to examine the financial resources available to lower level governments to pay for these outlays. To obtain a complete picture of the finance of cities it is necessary to consider the resources of both prefectures and municipalities. Tokyo, being itself a prefecture, can draw on both sources. Other cities share in prefectural funds only by transfer and grant. The broad lay-out of taxes and grants for all local authorities is shown in Table V. In addition to these there is a small revenue from property (1,229 million yen in 1967, climbing to 2,248 million yen in 1971) but it is by no means certain that the costs relating to this have been fully deducted.

General local taxes have nearly quadrupled for the eight year period. National grants-in-aid have grown somewhat more slowly; the local allocation tax somewhat more quickly. The local transfer tax has grown more slowly still and this from a smaller base. However, the ratio of grants to local general taxes shows no particular trend. Table VI gives parallel information for the T.M.G.

General local taxes have increased more slowly for the Tokyo Metropolitan Government than for all local governments. But the national grants-in-aid program for the T.M.G. has substantially

TABLE V: COMPOSITION OF LOCAL REVENUE: ALL LOCAL GOVERNMENTS, GENERAL AND SETTLED ACCOUNT
(Billions of Yen)

Item	1967	1968	1969	1970	1971	1972	1973	1974
General Local Taxes	2,148	2,580	3,090	3,751	4,236	5,004	6,491	8,238
Local Transfer Tax	69	80	93	109	126	164	180	223
Local Allocation Tax (subsidies for local government)	1,003	1,204	1,533	1,798	2,101	2,553	3,132	4,199
Fees and Charges	159	175	189	209	232	274	318	364
National Grants-in-Aid	1,407	1,608	1,813	2,093	2,566	3,385	3,801	5,027
Local Debt	N/A	N/A	N/A	643	1,124	1,636	1,637	1,925
Others	-	-	-	1,501	1,794	2,075	2,658	3,511
Total	4,786	5,647	6,738	10,104	12,179	15,091	18,217	23,487
Ratio: $\frac{\text{Grants (2+3+5)}}{\text{Total Taxes (1)}}$	1.15	1.12	1.11	1.06	1.13	1.21	1.09	1.14

Source: White Paper on Local Finance, Ministry of Local Autonomy, 1969-1973, 1976 Editions.

TABLE VI: COMPOSITION OF LOCAL REVENUE: TOKYO METROPOLITAN GOVERNMENT, GENERAL AND SETTLED ACCOUNT
(Billions of Yen)

Item	1967	1968	1969	1970	1971	1972	1973	1974
Metropolitan Taxes	325	395	478	581	635	748	973	1,170
Local Transfer Tax	1	1	1	1	1	2	2	2
Subsidies, specific grants, central government allotments	3	6	7	5	8	11	11	9
Fees and Charges	14	15	16	18	20	25	27	31
National Grants-in-Aid	75	88	97	112	129	149	153	193
Metropolitan Debt	N/A	N/A	N/A	33	86	137	85	96
Others	-	-	-	195	220	261	302	356
Total	446	505	599	946	1,099	1,333	1,553	1,857
Ratio: $\frac{\text{Grants (2+3+5)}}{\text{Total Taxes (1)}}$	.243	.240	.219	.203	.217	.216	.170	.174

Source: Tokyo Statistical Yearbook, Tokyo Metropolitan Government, 1967-1972, 1976 Editions.

lagged behind the increases for all local governments and central government subsidies for the T.M.G., after growing steadily between 1967 and 1973, actually declined in 1974. Data are as yet unavailable to determine whether a trend is operative here. What is clear is that the T.M.G. makes a much greater local tax effort, relative to national grants and subsidies than do all the local governments (T.M.G. included) described by Table V. Some explanation for this situation and a caveat in drawing conclusions about it are offered below.

The available autonomous tax sources for both prefectures and municipalities are of three types: legally prescribed, specially authorized (by the Ministry of Local Autonomy), and special purpose. For prefectures the prescribed taxes are: enterprise tax, prefectural inhabitants tax, real property acquisition tax, tobacco consumption tax, amusements tax (largely for golf), taxes on meals and hotels, automobiles, and hunting licenses. Other categories include taxes on the acquisition of motor vehicles, on light oil deliveries, water supply and land transfers.

For cities the prescribed taxes include: municipal inhabitants tax, tax on fixed assets (property), taxes on the consumption of tobacco, electricity and gas, on mineral products and on timber delivery. Special city taxes include an optional levy to aid city planning, and taxes on spa bath resorts' water supply, profits on land sales and municipal health insurance. There is considerable overlapping in the tax rights of prefectures

and municipalities, which presumably must lead to a degree of competitive exploitation of the same tax sources.

Because of its large area, Tokyo Metropolitan Government has a special tax system. First, the Tokyo metropolitan area is divided into two parts: Tokyo special wards (T.S.W.), constituting 23 wards, which are in the six former Tokyo cities; and the municipal area outside Tokyo Metropolitan Government. Second, Tokyo is unique in that the 23 wards inside the special ward area are treated as municipalities. Third, as a prefecture T.M.G. collects prefectural taxes just as do other prefectures, while municipalities in T.M.G. and the 23 wards in Tokyo city collect municipal taxes. Finally, the following five taxes collected in Tokyo city belong to Tokyo metropolitan tax, although they are municipal taxes in the other prefectures:

Inhabitants tax for legal persons
Property tax
Stamp duties
Spa bath tax
City planning tax

This implies that the T.M.G. tax system is prefectural plus municipal. Thus, we must be careful in comparing T.M.G. with Osaka, Nagoya, Kobe or other designated cities.

For convenience we may summarize the main local taxes:

Item	Individual persons	Legal persons
Prefectural	(1) Inhabitants tax for natural persons	(2) Inhabitants tax for companies
	(3) Enterprise tax for unincorporated business (rates revised in 1976)	(4) Enterprise tax for companies

Item	Individual persons	Legal persons
Municipal	(5) Inhabitants tax for natural persons	(6) Inhabitants tax for legal persons

The bases and standard rates are as follows:

	Base	Standard Rate
(1)	Personal income (as national tax)	lump-sum of ¥ 100 + 2% for less than 1.5 ¥ mn income 4% for more than 1.5 ¥ mn income
(2)	Corporate income (as national tax)	lump-sum of ¥ 1,000 + 5.2% (proportionate)
(3)	Business income (as national tax)	800 th. ¥ deduction, three schedules, 5%
(4)	Corporate income	6% for the income less than 1.5 ¥ mn 9% for 1.5 ¥ mn to 3 Y mn 12% for more than 3 ¥ mn
(5)	Personal income	lump-sum of ¥ 200 to ¥ 600 according to the population, rates being differential from 2% to 14% according to income range
(6)	Corporate income	lump-sum of 2,400 ¥ or 4,000 ¥ proportionate rate of 9.1%

Code: ¥= Yen; ¥mn = millions of Yen

As we have seen the largest and most rapidly expanding tax ascribed to sub-national governments is the prefectural enterprise tax or business tax. Farmers are exempted from the enterprise tax, so, too, are electronic media and the newspaper publishing companies for income originating in their own business activities. Because prefectures have been losing revenue, the

Association of Prefectural Governors has strongly demanded the abolition of preferential treatment for such companies by the national government. However, the enterprise tax is considered to be a charge for services rendered to industrial and business premises. There are three schedules: general (individual) business; primitive handicrafts industry; and professions. The basic rate is five percent of gross revenues with a one percent concession for handicraft firms. The prefectural enterprise tax for companies is levied on corporate income with the standard rate of 12 percent. Companies report their liability and the tax is collected by the tax office. If a firm operates in more than one prefecture, liability in each area is calculated according to the number of installations, offices and employees. This implies that in the large cities which house the head offices but have few employees, the accrued revenue is small. This is particularly true for Tokyo. Nevertheless 35.4 percent of autonomous tax collections in Tokyo in 1972 were derived from this source, with over 90 percent of that total from companies.

For the T.M.G. the next most important tax is inhabitants tax which provided 27.1 percent of its revenue in 1972. This is followed by the property tax which supplied 15.2 percent of the T.M.G.'s revenues in 1972. For other cities, denied the enterprise tax, these two taxes are the most important. The inhabitants tax represents 42 percent of revenues in the Osaka budget and 48 percent for Nagoya's. The property tax contributes 39 percent to Osaka's budget and 33 percent to Nagoya.

The inhabitants tax is levied on both natural and legal persons. The prefectural tax is collected together with the municipal tax. The city tax for legal persons consists of a lump sum poll tax levied at the rate of 2,400 yen for a person with capital of less than 10 million yen, and of 4,000 yen on capital exceeding this amount, plus an "income" tax amounting to the national corporation tax paid by the legal person multiplied by 0.091. The taxpayer must be located where taxed, but everyone so located must contribute. There has been a great deal of discussion concerning this lump sum levy. It is of course negligible in amount compared with the progressive national income tax, and is regarded as more vexatious than useful by many. If the national corporation tax and the prefectural and city inhabitants taxes are added together the statutory rate for legal persons amounts to 0.321 yen or 0.422 yen according to income.

The present property tax system derives from the Law of 1950 and is based on the recommendations of the Shoup Mission. In municipalities the tax covers real property, houses, and installation of firms (amortizable assets). It is thus a developed form of the old land, house and assets tax, and is a sort of individual wealth tax. The nominal base is present capital values; but this is much below market value, especially so since the official land prices used for compensation for public works are the base. Valuations are carried out only every three years and with rising land prices, which have been notoriously high, fixed rates quickly become out of date. There is a uniform basis

for the valuation of land, houses and other assets in the national local tax law; but the government publishes an official land price to apply all over the country. From this each local government estimates its own base. The prefectural property tax is confined to the assets of urban firms. There is a fixed limit of 300 million yen for municipalities with a population under 5,000, and 2,500 million yen for those with a population over 200,000.

Local governments can choose the rate of property tax within the range of 1.4 percent to 2.1 percent of present capital value, but 1.4 percent is in fact the standard rate. Anything exceeding this is reckoned an excess rate for which special justification is necessary. In fact, only one city in the Osaka prefecture uses a higher rate. The 1.4 percent rate has stood in the large cities since 1967. The revenue from property tax in relation to total tax revenue is shown in Table VII. The property tax is thus a useful but not very large source of local revenue. Its great weakness is its rigidity. But, as we shall see, a strong agitation for its reform is building up in the large cities.

TABLE VII

PROPERTY TAX REVENUES FOR T.M.G.
AND ALL LOCAL GOVERNMENTS
(Billions of Yen)

Item	1967		1974	
	T.M.G.	All Local Governments	T.M.G.	All Local Governments
Property Tax Revenue	6	182	173	1,272
Total Local Revenue	42	1,215	1,170	8,238
Ratio: $\frac{\text{Property Tax Revenues}}{\text{Total Local Revenues}}$	.142	.149	.147	.154

Source: For 1967 totals: Statistical Yearbook of Local Finance, Ministry of Local Autonomy, 1969, pp. 202, 208, 461; for 1974 totals: White Paper on Local Finance, Ministry of Local Autonomy, 1976 Edition, p. 218 and Tokyo Statistical Yearbook, Tokyo Metropolitan Government, 1976 Edition, p. 392.

Fiscal Policy

The two sources of shared revenue accruing to lower level governments are the local allocation tax (L.A.T.) and the local transfer tax (L.T.T.). Of these the L.A.T. is by far the more important. It takes the form of a block or unallocated grant from the national government. L.A.T. began in 1954 as part of the post-Shoup fiscal reorganization. Initially the revenue transfer consisted of 22 percent of anticipated national collections of income, corporation and liquor taxes. In 1961 the percentage was raised to 28.5 percent of these taxes; in 1962 to 28.9 percent; in 1965 to 29.5 percent; and in 1967 to 32 percent, at which level it still remains. It is entirely within the experience of other countries, such as India, who operate a system of revenue sharing that the national government is gradually forced into transferring greater aid to local governments on whom functional responsibility for expanding social services has been devolved. The importance of the L.A.T. and its upward if uneven drift is shown in Table VIII.

The peculiar characteristic of the Japanese system of shared revenue is the distribution among local authorities. This is shown particularly clearly for the block grant L.A.T. The L.T.T., which we shall examine below, is geared to particular purposes, bearing different rates of transfer. A total of 32 percent of the anticipated revenues from the national income, corporation and liquor taxes is given to the L.A.T. The relative distributions depend on the ratio of potential revenue to "fiscal demand"

for each receiving government.

For prefectures revenue consists of the expected revenue of all the ordinary prefectural taxes, plus 20 percent of the amusement, automobile acquisition and light oil delivery taxes. The remaining 80 percent of these latter taxes are passed on to the municipalities in the form of grants. Also transferred are 50 percent of the petrol tax and 25 percent of motor vehicle weight tax. Municipal revenue consists of the sum of local taxes computed at their basic rates plus shares of prefectural transfers, as described above, and payment in lieu of taxes on state property in the area. Finally, fiscal "revenue" is defined as estimated local tax revenue multiplied by 80 percent for prefectures and by 75 percent for municipalities.

The next step is to ascertain "fiscal demand" for sub-national government. This is extremely complicated. For each activity which local governments undertake a crude "unit cost" is estimated, and this is compared with standard unit costs for the whole country. The unit is defined basically by the number of workers. Thus, for primary education the unit depends on the number of teachers, clerks and schools; for secondary education the unit is the number of teachers and pupils. Units are computed for police, public works, industrial enterprises and the government service areas. Estimated "fiscal demand" then equals unit costs multiplied by the number of local units, adjusted for special local conditions to take account of factors associated with the physical environment, such as weather and experience with disas-

ters, such as earthquakes and floods. Final fiscal demand is thus the adjusted rate multiplied by standard unit costs multiplied by the number of local units. All governments for which final fiscal demand exceeds fiscal revenue are eligible for a share of L.A.T., in accordance with the extent to which their ratio of fiscal demand to fiscal revenue exceeds the national ratio.

For the local transfer tax, a different method of distribution is applied. This tax has four components: local road tax, petrol tax, tonnage tax and motor vehicle weight tax. For the first, revenue is earmarked for road development and is transferred 100 percent on the basis of the length of statutory roads in a designated area. The 50 percent of the petrol tax revenue which is transferred is earmarked for specially defined roads. The tonnage tax is not earmarked and is distributed 100 percent to cities with ports. A total of 25 percent of the motor vehicle weight tax is distributed on the same formula as the local road tax, but is earmarked for purely local roads. Thus, practically the whole of the revenue from the L.T.T. is earmarked when it reaches the cities.

An index of "fiscal power" relating the inter-local distribution of local autonomous and shared revenue may be defined as follows:

$$\text{Fiscal Power for Prefectures} = \text{Three year Average of} \left[\frac{\text{Estimated fiscal revenue}}{\text{Estimated fiscal demand}}\right]$$

and

$$\text{Fiscal Power for Cities} = \text{Three year Average of} \left[\frac{\text{Estimated Local Tax + L.T.T.}}{\text{Estimated fiscal demand}}\right]$$

TABLE VIII. RATIOS OF SHARED REVENUES TO LOCAL GOVERNMENT REVENUES AND EXPENDITURES

Item	1961	1966	1968	1969	1971	1973	1974
L.A.T./Local government Tax Revenue	.160	.150	.162	.176	.173	.172	.179
L.A.T./Local government Total Revenue	.297	.293	.297	.315	.325	.319	.332
L.A.T./Central government Expenditure	.194	.174	.194	.211	.223	.219	.246

Source: For 1961, 1966, 1969 totals: White Paper on Local Finance, Ministry of Local Autonomy, 1973 Edition, pp. 192, 193; for 1968, 1971, 1973, 1974 totals: White Paper on Local Finance, Ministry of Local Autonomy, 1976 Edition, pp. 216, 217.

The incidence of local general tax revenue (G.L.T.), the L.A.T., and the L.T.T. for different governments can then be compared. The result is shown in Table IX (A,B,C) for prefectures, large cities, and small cities respectively.

For prefectures local tax revenues increase sharply with fiscal power. This relationship obtains for both 1971 and 1974, although the weaker prefectures show some slight increase in their raised revenues between the two years due to the effects of wage rate increases. Correspondingly, the L.A.T. diminishes steadily as fiscal power rises, a decline most noted for the weaker prefectures in the 1971 to 1974 interval. The prefectural L.T.T. in 1971 showed a steady decline with increasing fiscal power; the 1974 relationship indicates a rise, then drop as fiscal power increases, across a lower range than the 1971 totals. But, for neither year is the L.T.T. a significant part of prefectural revenues.

The L.T.T. is added to the fiscal power index for large and small cities. But, the L.T.T. remains a minor factor in city government revenues, despite a step-up in importance between 1971 and 1974 occasioned by a 76.7 percent increase in the motor vehicle duty and a 50.2 percent rise in the aircraft fuel tax in 1974. There is an increasing dependence, more pronounced for 1974 than 1971, on the G.L.T. for larger cities up to a population of 180,000; from that point there is a drop. In smaller cities the G.L.T. demonstrates greater use with size increases up to a population of 25,000; then here, too, there is a fall-off.

TABLE IX (A): PREFECTURAL PERCENTAGE SHARE OF G.L.T., L.A.T., AND L.T.T. OF LOCAL REVENUES

Fiscal Power Index for:	.15		.35		.45		.75		1.00		Average	
	1971	1974	1971	1974	1971	1974	1971	1974	1971	1974	1971	1974
G.L.T.	12.5	13.2	16.6	19.0	22.0	23.9	33.9	34.5	55.4	55.9	28.9	30.0
L.A.T.	32.7	31.8	27.4	28.3	22.4	24.6	12.6	14.8	0.0	0.0	18.0	19.1
L.T.T.	2.1	1.4	2.0	1.5	2.0	1.5	1.8	1.3	0.3	0.2	1.7	1.2

TABLE IX (B): LARGE CITY PERCENTAGE SHARE OF G.L.T., L.A.T., AND L.T.T. OF LOCAL REVENUES

Population	43,000		68,000		105,000		180,000		330,000	
	1971	1974	1971	1974	1971	1974	1971	1974	1971	1974
G.L.T.	22.9	23.9	28.8	31.9	36.9	38.9	40.9	41.6	38.9	38.9
L.A.T.	30.9	28.9	18.3	18.2	13.8	14.0	10.8	9.3	9.2	8.9
L.T.T.	1.2	1.9	1.2	1.9	1.2	1.7	1.3	1.6	1.4	1.6

Source: Table IX(A,B,C): For 1971 Totals: White Paper on Local Finance, Ministry of Local Autonomy, 1973 Edition, p. 36; for 1974 Totals: White Paper on Local Finance, Ministry of Local Autonomy, 1976 Edition, p. 38.

TABLE IX (C): SMALL CITY PERCENTAGE SHARE OF G.L.T., L.A.T., AND L.T.T. OF LOCAL REVENUES

Population	4,300		6,800		10,500		15,500		20,500		25,500		30,500	
	1971	1974	1971	1974	1971	1974	1971	1974	1971	1974	1971	1974	1971	1974
G.L.T.	9.1	7.9	11.3	11.0	17.7	19.0	18.7	20.0	21.4	21.5	29.0	31.8	35.6	29.4
L.A.T.	45.7	49.9	40.6	41.5	36.2	32.1	35.4	32.3	34.9	34.3	24.2	21.0	21.5	34.0
L.T.T.	1.3	2.1	1.3	2.0	1.5	2.1	1.6	2.4	1.4	2.7	2.4	2.7	1.6	3.1

Source: Table IX(A,B,C):
For 1971 Totals: White Paper on Local Finance, Ministry of Local Autonomy, 1973 Edition, p. 36; for 1974 Totals: White Paper on Local Finance, Ministry of Local Autonomy, 1976 Edition, p. 38.

However, larger small cities place a greater emphasis on the G.L.T. than do the smaller large cities. These relationships hold over the 1971 to 1974 interval with the level of the latter passing the former at a population of 10,500 and, with a single exception, holding that edge for the entire population range.

The picture of the L.A.T. for the cities is for a steep and steady decline, more pronounced in 1974 than 1971, except for the most populous of the small cities and the least populous of the large cities. For the very largest cities the regressivity of the L.A.T. is still worse. Tokyo, for example, receives no L.A.T. allocation at all.

In addition to the major revenue sharing system of national grants, certain specific grants are available to lower level governments. For prefectures the national government contributes fixed percentages of between 20 percent and 50 percent to the costs of particular types of projects. The grants are of the "carrot and stick" variety and reflect national policies encouraging such projects as public works, schools, buildings and development works. For example, primary school buildings can qualify for a 30 percent grant, main roads at a 50 percent level, and railway construction for a 30 percent national subsidy.

The shares of the national grants-in-aid as percentages of local revenue show little change between 1970 and 1974, being 20.7 percent in the former year and 22.4 percent in the latter year. However, there have been significant recent increases in the categories of compulsory education, old age pensions, and con-

signment public works, all reflecting national government initiatives. Also, there is considerable rigidity in the grants-in-aid program, as 23 percent of national grants are given to education and 27 percent to social welfare activities, in consequence of the mandate of national legislation.

There are also special grants to municipalities from national and prefectural governments. These are of three types. First, certain project grants are made directly by the national government to municipalities. Second, the national government allocates some grants to municipalities indirectly through the prefectures, which presumably have some discretion over their distribution. Third, prefectures have historical and traditional grant contracts with some of their cities. The volume and scope of these vary greatly from prefecture to prefecture, according to the particular relationship between a prefecture and its cities. Further, at the prefectural/municipal level there exists a small system of prefectural revenue sharing. Taxes on light oil, golf courses, and vehicle acquisition are pooled and a fixed percentage awarded to cities. This amounts to 50 percent of the golf tax and 20 percent of the vehicle tax, with the latter being earmarked for road construction. Finally, the T.M.G. has an interesting system of internal interlocal revenue redistribution. Tokyo wards where fiscal revenue exceeds fiscal demand have to make a block contribution to the T.M.G., which redistributes it in the form of block grants to wards where fiscal demand exceeds fiscal revenue.

Borrowing

So far we have been dealing only with current account transactions. In Japan it is expected that most municipal investment can be financed from current sources: autonomous revenue or grants. In fact this has not proven practicable and local borrowing although strictly controlled has been steadily expanding. Even with this expansion the total municipal debt outstanding is still low. The percentage totals noted in Table X are extremely small by Western standards and, indeed, after sharp increases in borrowing as a percentage of revenues in the early 1970's for all local authorities and the T.M.G., appear to be in decline. This helps explain the slow process of city modernization. Three aspects of long term loan finance call for examination: the mechanics of borrowing; the sources of loan finance and their relative importance; and rates of interest and their maturities. In Japan as in most other countries, temporary accommodation for repayment within the fiscal year can be obtained from the banks. The sums involved seem to be small and interest rates substantially higher than for period loans, not a few of which are granted at concessionary rates.

Municipal borrowing is permitted as follows:

1. for a local enterprise where the debt service can be financed out of profits;

2. where it can be anticipated that the resulting expansion will raise tax potential sufficiently to cover debt service, as for port development;

3. where the needs of future expansion clearly justify immediate investment, as for roads and bridges;

TABLE X: LOCAL BORROWING IN JAPAN: NET CENTRAL AND SETTLED ACCOUNTS (Billions of Yen)

Item	1967	Percent Increase	1968	Percent Increase	1969	Percent Increase	1970	Percent Increase	1971	Percent Increase	1972	Percent Increase	1973	Percent Increase	1974
All Local Authorities	341	8.2	369	18.7	438	46.8	643	74.8	1124	45.5	1636	0.06	1637	17.5	1925
Tokyo Metropolitan Government	19	10.5	21	9.5	23	43.4	33	160.6	86	59.3	137	-14.6	107	38.3	148

Sources: White Paper on Local Finance, Ministry of Local Autonomy, 1969-1973, 1976 Editions.
Tokyo Statistical Yearbook, Tokyo Metropolitan Government, 1969-1973, 1976 Editions.

-41-

TABLE XI. LOCAL BORROWING AS PERCENTAGE OF LOCAL REVENUES

Item	1967	1968	1969	1970	1971	1972	1973	1974
All Local Authorities	7.1	6.5	6.5	6.3	5.8	10.8	8.9	8.2
Tokyo Metropolitan Government	4.2	4.1	3.8	3.4	7.8	10.2	6.8	7.9

Sources: See Tables V, VI for Local Revenue Totals; see Table X for Local Borrowing Totals.

4. in case of local natural disaster, for which access to funds is always available in Japan.

For any other type of loan special legislation may be required. In fact some loans have been sanctioned for retirement pension and for urban renewal.

In order to be able to borrow, a prefecture or a "designated city" must first obtain the sanction of its own Assembly and then receive a permit from the Ministry of Local Autonomy. A smaller authority which has won the approval of its assembly depends then on the acquiescence of the prefectural governor. Broadly speaking there are three sources of loan finances: the national government; publ[illegible] but non-government institutions; subscription by the public. [illegible]he early postwar years when local funds were very short one or two of the largest cities indulged in a small amount of foreign borrowing; but this has not become a regular feature.

Most of the government loans come via the funds management division of the Ministry of Finance which monitors the general debt position of the local governments. Another small source of government funds lies in the accumulated surpluses of the Postal Services. The second source of public funds is the Public Enterprise Finance Corporation, established in 1959. Although it is not a government body, this organization issues bonds whose principal and interest are guaranteed by the government. Its coverage includes only enterprises. Loans by public subscription are permissible only for the largest sub-national governments: the T.M.G., Osaka, and Hyogo prefectures, and the cities of Osaka, Nagoya, Yokohama, Kyoto, and Kobe.

The standard maturities for loans of different descriptions is fixed by the local finance act, and are shown below for general budget loans and for public enterprise loans respectively.

Standard Maturity and Interest Free Period for Local Loans, by Type of Project

1. General Budget Loan

Maturity	5 years	10 years	12 years	15 years	20 years	25 years
Interest Free Period	1 year	2 years	3 years	3 years	3 years	3 years
	Machines etc.	Agricultural assets	Special Housing	Roads Bridges Water	River Harbour City planning Housing School etc.	Housing School Office (all concrete)

2. Public Enterprise Loan

5 years 1 year	10 years 2 years	15 years 3 years	20 years 5 years	30 years 5 years
Vehicles	Land usage	Harbour ships railway trains buildings (wooden)	Trains buildings (concrete) market gas supply	Water supply underground railway

It is the custom for the initial period of a loan to be interest free (the so-called "unredeemable period") in order to encourage immediate use of the funds. In fact many local authorities borrow repeatedly in this manner at fairly short term to enjoy the interest concession.

Thus, in practice there is a good deal more flexibility than

these arrangements would seem to imply. Conditions of maturity and interest free period are arranged on the basis of economic considerations for each contract individually, but always with reference to the fixed standards. Generally speaking, government loans are for the longer periods and carry a lower rate of interest than the shorter dated public subscription loans. It is impossible to say what maturities are presently being used; but it would seem from the information available that a 10 year maturity with a two year interest free period is most common for general budget loans. For public enterprise loans, the maturation period is five years with one year interest free for short loans, and 20 years with a five year interest free period for longer projects.

Similarly, no information is available concerning present interest rates, outside the accounts of the individual cities. However, it has been possible to work out a weighted average of rates with the amounts of loans issued by local bodies. These are shown in Table XII for prefectures and municipalities respectively.

It thus appears that there is little difference between the rates charged to prefectures and to municipalities, or in the relative volume of loans raised at different rates. Of the three big cities Tokyo and Osaka both make substantial use of government funds, but Tokyo's largest commitment is for relatively short term loans by banks and insurance companies. Nagoya also has relatively large commitments in this direction. Only Tokyo makes substantial use of public issues. However, the issuing condition

TABLE XII: INTEREST RATES AND AMOUNTS ISSUED FOR LOCAL LOANS (Billions of Yen)

Item \ Percentage Interest Rate	1970 6.3	6.5	7.3	7.4	7.6	8.0	Percentage Weighted Average	Global Percentage Weighted Average	1974 6.3	6.5	7.3	7.4	7.6	8.0	Percentage Weighted Average	Global Percentage Weighted Average
Prefectures:																
Government funds	1.6	6.0	.02	--	.01	--	6.96		4.9	7.1	0.1	--	1.7	.03	6.58	
Public Subscription	0.1	0.3	2.8	0.6	1.0	0.2	7.34		.09	0.3	9.6	0.7	1.1	4.3	7.49	
Total	1.7	6.3	2.8	0.6	1.0	0.2		6.80	5.0	7.4	9.7	0.7	2.8	4.3		7.10
Municipalities:																
Government funds	1.1	0.9	.06	--	.01	--	6.48		3.3	13.1	0.3	.02	9.7	.01	6.73	
Public Subscription	0.4	0.7	2.6	0.2	1.6	0.8	7.32		1.4	1.2	6.8	0.6	2.0	4.9	7.40	
Total	1.5	1.6	2.7	0.2	1.6	0.8		6.79	4.7	14.3	7.1	0.6	6.7	4.9		7.02

Sources: For 1970: Annual Abstract of Statistics of Local Finance, Ministry of Local Autonomy, 1972 Edition, pp. 513, 514; for 1974: Annual Abstract of Local Finance Statistics, Ministry of Finance, 1976 Edition, pp. 538, 539.

is becoming worse because of the general increase in the interest rate. Some relaxation of the austerity policy which has been forced on city governments would seem to be highly desirable if they are to bring themselves up to modern capital infrastructure standards within a reasonable period.

Fiscal Reform

Now that we have examined the patterns expenditures, revenues, and borrowing in Japanese local government, we must try to assess the extent to which local governments make their own policy decisions. We have seen that Osaka for several years followed a very active policy with respect to both housing and health services. Osaka encountered budgetary deficits and in the end was forced to curtail highly valued programs. It must be noted, however, that the recession of the 1960's hit Osaka more severely than the other giant cities, due to the nature of the city's economic base. On the other hand all three giant cities, Tokyo, Osaka, and Nagoya, now have progressive "socialist" mayors, so it is assumed that they will try to carry out a reform policy, with emphasis on social welfare.

An elaborate machinery of budgetary planning and adoption was set up according to the recommendations of the Shoup Commission of 1949. This involved the obligation of lengthy negotiations between the national government representatives, the local assembly; and the leading local administrators, the chief executive and the chief accountant. This machinery is still in place, but it only comes into operation at a fairly advanced state in

the budgetary process. The first step is the issue by the Ministry of Local Autonomy of the local public finance programs for the fiscal year which runs from April 1 to March 31. This is done under the L.A.T. Law in 1954, as part of the post-Shoup reorganization. The program covers all lower level governments. It contains two tables: one dealing with revenues; and the other with expenditures. They are shown with an exact balance. Grants and subsidies are included, although there is no means of telling the extent of subsidization of any particular item. Both current and capital items appear on each side. Expenditure and revenue are shown for the previous year as well as for the one to which the program refers, with a note of the expected increases.

The estimated revenue program which, perhaps significantly comes first, consists of ten major headings, within which are itemized three specific transfers under the L.T.T. for the development of roads and ports and five specific contributions from the national government. Among these latter are found the national government share of the costs of primary education and a grant in lieu of taxes on central government property in the area.

The planned expenditure program contains seven headings, of which the largest is for "compensation": wages, salaries and pensions. Capital expenditure commonly runs at about two-thirds of current expenditures; but much of this seems to be subsidized by the national government. Debt charges are a small fraction of current outlay but they have been unstable in recent years. One tiny but very fast growing and perhaps significant item should be

noted: "Expenses for functions in specific local entities exceeding the national minimum level."

What, we may ask, is the purpose of such an elaborate program? It is clearly far too general to fit the needs of any particular local government. The primary objective is stated to be to keep national and local policy closely aligned. It is intended as a rather specific set of guidelines. It does not necessarily imply that any jurisdiction, especially a giant city, cannot diverge to some extent from the suggested ranking of importance of the items.

Once the general program is fixed, budget making can proceed within each government. The first draft is drawn up by the chief accountant and is subject to often trenchant criticism from the chief executive offices with the help of national policy commissioners. When the draft is ready, the proposed budget is submitted to the assembly. It is within the powers of this body to amend the draft, so long as the total is not increased, since this is the prerogative of the chief executive. In the meantime the chief executive will have submitted to the assembly a semi-annual report on the progress of its finances, so that members should be well aware of the situation. "Hearings" on the proposals are then carried out, with the chief accountant reporting to the chief executive. Finally the chief executive submits the budget to the assembly, after adjusting for the accepted demands and policy decisions, and the planning process is complete.

The chief executive thus has a very important part to play in the budgetary process; but the factors which determine his

power are intangible, depending largely on his personality and perhaps on the quality of the assembly. Hence this influence will vary from place to place. One can say that the typical Japanese chief executive is neither dictatorial nor completely democratic. This person can be very influential in decisions on local matters. But much routine business and many commitments are controlled by the permanent civil service acting under the Ministry of Local Autonomy. Generally speaking the lower the level of government the stronger is the influence of the chief executive. Japanese local budgeting is in fact a compromise between the tradition of a unified national state and Anglo-American-Scandinavian ideas of local autonomy. When the budget comes forward for implementation the chief executive controls the more important items. With respect to the smaller outlays, the departments are left to manage their own items. Thus, in practice most disbursements are decentralized from the national level.

It will be apparent from the form of the financial program given above, a form to which the cities adhere closely, as well as from the inclusion of capital items cheek by jowl with current outlay, that the budget is not used for, and is not intended for, macro-policy decisions. As yet there has been very little understanding in Japan, and almost no use, of such ideas as cost/benefit analysis, or program and performance budgeting. Nevertheless some missionary work in this direction is being undertaken by the Ministry of Finance, the Economic Planning Agency and some professional economists, at least in the big cities. Cost/benefit anal-

ysis has actually been used for a few isolated projects, such as the Aichi prefectural water project, and the Tokyo-Nagoya motorway. The use of performance checks is being discussed for such functions as water purification and other aspects of pollution control. However one gets the impression that budgeting by local entities, not excluding the prefectures, is so strongly controlled by the uniform law that the working out of alternative methods is hardly possible. There is a severe shortage of high quality staff and a regrettable lack of communication between them and progressive thinkers or academic advisers.

That is not to say that the Japanese are at all content with the urban situation. The big local governments, in particular the T.M.G., Osaka, and Kobe, have set up committees composed of public and academic economists to formulate proposals for reform. Tokyo's committee reported in December 1973, Osaka's in February 1974. Kobe's committee began work in 1974. The reports of the T.M.G. and Osaka follow very similar lines. Both complain of the diseconomies of conglomeration and are much concerned over the pollution of the environment. Both demand a greater degree of autonomy in revenue raising and outlay choice. They would like to see more decentralization. Both cities are very anxious to escape from the rigidity of the Uniform Tax Law, whose prescribed rates, as they point out, are not at all appropriate to the circumstances of a large city.

Both the T.M.G. and Osaka are naturally much worried at the huge capital gains being made in land sales. The T.M.G. suggests

a recasting of the property tax to address this problem. Osaka wants a broadening of the base of the income element in the Inhabitants Tax to make it more akin to a Wealth Tax, and also a tax on excess profits in land transactions. To reduce congestion both would like to see a tax or taxes which would fall on commuters and their employers. They also want a pollution tax to fall on particularly unpleasant manufacturers, and, to accompany it, a betterment levy on those whose position has been improved by the city's activities. Most of these ideas are by no means new, and it may be doubted whether the difficulties in carrying them out are fully realized. Nevertheless they are an indication that the giant cities now most definitely want to gear their policy to welfare, not growth. Osaka goes so far as to say that "since the objective is now welfare, special devices to promote growth should be abandoned."

How far these proposals will commend themselves to higher level governments on the one hand and on the other to their own citizens, remains to be seen. It might have been more persuasive to start off with a definite reform program, with cost/benefit analysis and at least simple feasibility studies before money was asked for. But a start has been made.

APPENDIX I: DIRECTIONS OF FUTURE RESEARCH

1. In an Osaka study group (including officials), there is hot discussion about sharing public services and administration between C/G and L/G. Almost 70% of local services contains rigid parts, which include salaries and allotment administration of C/G. The duty of local bodies have long been defined by severe laws since 1890, many of them are quite formal. Therefore it is needed to consider these from the point of view of local autonomy.

2. In Tokyo, Osaka and especially in Kobe, there are several committees to discuss and advise the definition of tax and user-charge. This classification is extremely useful for obtaining rational expenditure and burden of social welfare projects. These are for public housing, nursery home and schools, public transport, hospitals. The pricing problems of public or quasi-public goods are gradually entered into and becoming understood.

3. Local property tax is another subject. Tokyo and Osaka committees have made reports to recommend the change valuation base on annual value (based on benefit principle) for asset value base.

4. The Finance Ministry is going to employ general sales tax, as a step to VAT. However, this is rather competitive position with the idea to introduce value added concept in local business tax. A broad based VAT for the business tax would be preferred.

5. Forthcoming is a white paper on local (city) expenditure, in which the criteria of the burden of quasi-public goods service and the relative weights of general public services can be explained. Reconsideration is at most necessary for expenditure side so as to recover the unbalance of tax revenue against increasing public needs.

6. Revenue sharing is another current topic. All local authorities seek for 50% of Local Allocation Tax from the three national tax revenues. It will not be easy to get this target, but sooner or later the percentage has to be raised.

7. Finally there was an interesting judgment in Tokyo law court that the suit (against C/G) of Settu City in Osaka, to collect appropriate amount of subsidies to nursery homes, was not suitable for judgment. C/G intends to hold the Optimality Grant Act, while Settu City insists on official Grant Act for nursery schools. But during the lawsuit, actually the Ministry of Local Autonomy raised the standard of estimates for grants to improve welfare, so that they say the Settu has lost the battle but won the war.

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